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Cypriot Talks Resume in Vienna

The second round of Cypriot intercommunal talks aimed at securing a negotiated settlement commences tomorrow in Vienna with no major breakthrough in sight.

Prospects that Greek Cypriot negotiator Clerides and Turkish Cypriot negotiator Denktash might come to grips with major issues in Vienna dimmed after the experts' committee--commissioned at the first Vienna round in early May to examine the powers of the central government in the proposed federation--failed to reach agreement. Each side blamed the other for the failure and the charges of bad faith may be repeated in Vienna.

The lack of progress in defining the structure of the federation makes it unlikely that Denktash will set forth concrete positions on other major issues such as the geographical aspects of a settlement and the return of refugees to their homes as promised in the earlier round. [redacted]

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Despite misgivings about the Vienna talks, the Turkish side will probably try to give them the appearance of movement. Ankara wants to avoid blame for the lack of progress when UN Secretary General Waldheim--under whose auspices the talks are being held--reports to the Security Council on June 15. [redacted] 25X1

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[redacted]

Austrian-Yugoslav Relations Improve

The strained relations between Vienna and Belgrade are relaxing and the Austrian Ambassador to Yugoslavia may return soon. The ambassador was called home last month after Belgrade publically criticized Vienna's policies toward Slavic minorities on the eve of Austrian celebrations commemorating the twentieth anniversary of the State Treaty.

A Yugoslav delegation will visit Vienna soon to resume bilateral discussions over the restoration of Yugoslav historical records and artifacts confiscated by the Nazis and brought to Austria in World War II. Although Yugoslav press commentary about Austria continues mixed, the recent announcement of the delegation, along with the continuance of bilateral talks aimed at improving educational opportunities for Yugoslav guest workers in Austria, reflects the desire of both governments to bury the hatchet.

The Embassy in Belgrade suggested that the Yugoslavs may want to play down the dispute now that the Treaty celebrations are over and the Yugoslav tourist season has begun. [redacted]

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EC Approves State Aid to UK and French Automotive Industries

The EC Commission ruled last week that large French and British government loans to rescue the near-bankrupt Citroen and Leyland automotive firms do not contravene EC regulations.

The EEC treaty specifies that the member states must give the Commission advance notice about providing state funds to private industries, in order to ensure that competition within the community is not thereby distorted. The Commission approved the French and British plans on the basis that they are genuine improvement efforts and not attempts to bail out non-competitive companies.

This formulation is probably largely face-saving, since the Commission had little or no choice but to give its approval, given the importance of the industries, the number of employees involved, and the blow to national prestige should the firms have gone under. Undoubtedly, both Paris and London would have raised the question in an EC Council--which can overrule the Commission, however, only by unanimous vote--had the Commission tried to block the subsidies.

For France, the EC action was post facto; Paris advised Brussels only after the government had agreed last December to lend Citroen--France's largest automobile producer--one billion francs (over $200 million) to pay off 800 million francs in debts and to facilitate an extensive centralization of automotive production in France. Citroen's plight came about as a result of poor management and inappropriate production programs.

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British Leyland--the UK's largest automotive manufacturer and the only major one not a US subsidiary--has been in bad shape for some time. Under the government rescue plan, it will acquire majority participation in the firm for 200 million pounds; it will also provide financial guarantees for 200 million and will loan the company 500 million at normal interest rates (a total of about $370 million). The US Embassy has questioned whether the action will help over the longer run in view of the company's many acute problems, including obsolete facilities, management's reluctance to face labor unions over chaotic industrial relations, and a basic need to greatly increase productivity.

The Commission's announcement came at a crucial moment for London--just before tomorrow's national referendum on EC membership. The favorable action is a boon to the pro-EC forces, who have been trying to counter the anti-marketeers' argument that the EC's powers of supervision over state aid could jeopardize national control over industrial and regional policies. The whole affair is a reminder, however, of the extensive powers that Brussels has, in theory at least, over member-state economic plans. [redacted]

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